

A case study of the Maryland hospital rate setting system

ISSUE: Maryland is the only state still operating an all-payer rate setting system for hospital services. What lessons can we learn from this unique laboratory for developing and testing administered pricing mechanisms?

KEY POINTS: In this project, we are neither endorsing the concept of all-payer rate setting nor evaluating Maryland's rate setting system. The system is complex and state regulation involves mechanisms that some may view as intrusive. But the system has five features that may bear on Federal policy interests, in the areas of:

- efficiency and cost containment,
- control of charge markups, by payer and by type of service,
- uncompensated care,
- use of financial indicators, and
- wage index design.

ACTION: No decisions are needed. The Commissioners should discuss implications of the Maryland experience for our work on the design of PPSs for facility-based services and for Medicare policy more broadly. We would also appreciate specific comments on the paper.

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